PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

Joint Application and Petition of South Carolina Electric & Gas Company and Dominion Energy, Incorporated for Review and Approval of a Proposed Business Combination between SCANA Corporation and Dominion Energy, Incorporated, as May Be Required, and for a Prudency Determination Regarding the Abandonment of the V.C. Summer Units 2 & 3 Project and Associated Customer Benefits and Cost Recovery Plans	)	**Case No. 2017-370-E**

Direct Testimony and Exhibits of

James T. Selecky

On behalf of

United States Department of Defense
and all other Federal Executive Agencies

September 24, 2018

BRUBAKER & ASSOCIATES, INC.

Project 9987.7

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<u>DIRECT TESTIMONY OF JAMES T. SELECKY</u>

<u>I. INTRODUCTION</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing in this proceeding on behalf of the United States Department of Defense and all other Federal Executive Agencies ("DoD/FEA"). The DoD/FEA takes service from South Carolina Electric & Gas Company ("SCE&G" or "Company") on several electric and gas rate schedules.

Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?

A My testimony will address certain aspects of the proposed merger between SCANA Corporation ("SCANA") and Dominion Energy, Inc. ("Dominion Energy"). SCE&G is a subsidiary of SCANA. As a condition of the merger, Dominion Energy and SCE&G are requesting that the Public Service Commission of South Carolina ("Commission") approve a Customer Benefit Plan. Specifically, I will address the treatment of the proposed one-time rate credit totaling $1.3 billion, the federal income tax rates used in developing the amortization and the rates or charges for the approximately $3.3 billion of the New Nuclear Development ("NND") project costs that will be included in the SCE&G post-merger rates, and the use of securitization to recover any NND project costs that the Commission authorizes for recovery from SCE&G ratepayers.

The fact that I have not addressed an issue should not be construed as endorsement of Dominion Energy's or SCE&G's position.

II. SUMMARY AND CONCLUSIONS

Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A My conclusions and recommendations can be summarized as follows:

1. I am not taking any positon as to the appropriateness of the merger between SCANA and Dominion Energy. I am only addressing certain provisions of the Customer Benefit Plan.

2. One of the requirements of the Customer Benefit Plan is an upfront one-time rate credit to SCE&G's customers. The proposed Customer Benefit Plan sets a one-time rate credit at $1.3 billion. This one-time rate credit will be issued to eligible customers in the form of a check. SCE&G's customers should have the option of either receiving that amount in a check or a credit on their future electric bills.

3. The development of the federal income taxes associated with the proposed amortization of the approximate $3.3 billion of NND project costs should use the current federal income tax rate. To develop this revenue requirement, SCE&G utilized the pre-2018 35% federal income tax rate as opposed to the current 21% income tax rate. This not only affects the amortization costs that are included in the Capital Cost Rider component, but also the NND Tax Rider.

4. The Commission should not approve the amortization of any NND project costs using traditional ratemaking, but should require the recovery of the costs through securitization.

Each of these items will be discussed in detail in this testimony.

III. ONE-TIME RATE CREDIT

Q IS SCE&G PROPOSING A ONE-TIME RATE CREDIT UNDER THE CUSTOMER BENEFIT PLAN?

A Yes. Under the Customer Benefit Plan as proposed, SCE&G electric customers will receive a one-time rate credit totaling $1.3 billion.

Q HOW WILL THE RATE CREDIT BE ALLOCATED TO THE VARIOUS CUSTOMER CLASSES AND CUSTOMERS?

A The rate credit will be apportioned to all retail electric customer classes based on their 2016 contribution to firm peak demand. After the dollars assigned to the customer class are determined, a rate per kWh will be calculated for each customer class by dividing the total kWh sales of electricity for the customer class over a 12-month historical period into the amount assigned to that customer class. The $/kWh rate will then be applied to each customer's kWh usage over this period to determine the customer's one-time payment amount. This procedure is discussed in the Direct Testimony of SCANA Services Inc. witness Allen Rooks.

Q HOW DOES SCE&G PROPOSE TO RETURN THIS RATE CREDIT TO THE CUSTOMERS?

A The rate credit will be issued to eligible customers in the form of a check within 90 days of closing of the combination of SCANA with Dominion Energy.

Q DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE TREATMENT OF THE RATE CREDIT?

A Yes. The eligible customers should have a choice as to whether the rate credit should be a one-time payment in the form of a check or a reduction to the customer's electric utility bill. Under the method proposed by SCE&G, the customer will receive the credit via a one-time check.

Q WHY ARE YOU PROPOSING THAT THE CUSTOMERS HAVE AN OPTION AS TO HOW THEY RECEIVE ANY RATE CREDIT THAT THE COMMISSION MAY AUTHORIZE?

A DoD/FEA customers will not benefit specifically from the one-time rate credit if it is issued as a check. For example, any check that Fort Jackson, which is a large customer of SCE&G, receives is turned over to the United States Treasury. As such, Fort Jackson specifically will not benefit from the rate credit check or see any direct reduction in its SCE&G utility cost, despite the fact that Fort Jackson paid for NND project costs over the years through its rates. Any refund of these rates should be passed on directly to Fort Jackson. If customers are allowed to choose to have the rate credit issued as a credit on their bills, then Fort Jackson and other DoD/FEA customers would be able to retain the rate credit. As a result, I am proposing that the eligible customers have an option as to how they will receive any one-time rate credit that could be authorized by the Commission.

If SCE&G believes this is too burdensome to offer this option to all of its eligible customers, there could be restrictions that only allows customers such as non-residential to have this option.

Q ARE YOU SUPPORTING SCE&G'S PROPOSAL TO PROVIDE A REFUND OF $1.3 BILLION?

A No, I am not taking any position as to the size of any refund or even if the refund is the most beneficial way to provide benefits to the SCE&G customers.

IV. FEDERAL INCOME TAX RATE

Q TO DETERMINE THE REVENUE REQUIREMENT ASSOCIATED WITH THE AMORTIZATION OF APPROXIMATELY $3.3 BILLION OF NND PROJECT COSTS, WHAT FEDERAL INCOME TAX RATE DID SCE&G USE?

A SCE&G utilized a 35% federal income tax rate to develop the annual revenue requirement associated with the amortization of the approximately $3.3 billion of NND project costs. These costs will be amortized over a 20-year period and will be collected in the proposed Capital Cost Rider component. The federal income tax rate impacts the costs collected through the Capital Cost Rider component because the unamortized portion of NND project costs is subject to SCE&G's pre-tax cost of capital.

Q DID SCE&G MAKE ANY ADJUSTMENTS TO THE REVENUE REQUIREMENT TO REFLECT THE CURRENT FEDERAL INCOME TAX RATE OF 21%?

A Yes. SCANA has developed an NND Tax Rider. In recognition of the Tax Cuts and Jobs Act of 2017 ("TCJA") tax reform, SCE&G will provide customers initially a retail service credit of 1.86% of the billed rate schedule charges to reflect the lower tax rates. This credit of 1.86% will only be in effect in 2019. For the years thereafter, the NND tax credit will be adjusted annually or if at any point the associated deductions are not sustained for tax purposes the credit will go to zero.

Q DO YOU HAVE ANY RECOMMENDATION TO MAKE REGARDING WHAT FEDERAL INCOME TAX RATES SHOULD BE USED TO DEVELOP THE COST ASSOCIATED WITH THE RECOVERY OF ANY AMORTIZATION OF NND PROJECT COSTS?

A Yes. Seeing that any amortization would occur after 2017, I would recommend the Commission utilize the current federal income tax rate of 21% to develop any charges.

Q WHY DO YOU THINK IT IS APPROPRIATE TO UTILIZE THE CURRENT FEDERAL INCOME TAX RATE?

A First, the current federal income tax rate more accurately depicts the income taxes SCE&G is required to pay. The costs associated with the amortization will be recovered through a separate rider and are not dependent on rates that were implemented when the tax rate was 35%.

Second, as previously indicated, SCE&G is proposing a true-up to the actual tax rate through application of its NND Tax Rider. However, that Tax Rider needs to be adjusted annually because the change in the income taxes due to the federal government is not a constant percentage over the 20-year amortization life. As the asset depreciates, the tax obligation declines and so does the percentage of the revenue requirement that is related to federal income tax obligations. By utilizing the current federal income rate there is no need for the NND Tax Rider. This will somewhat simplify the future regulatory requirements.

Finally, the NND Tax Rider contains a provision that if the associated tax deductions are not sustained for tax purposes the credit will go to zero. This results in shifting regulatory or ratemaking risks on the ratepayers. Although SCE&G has not provided, to my knowledge, any indication of the likelihood of this occurring, the ratepayers should not be burdened with covering this risk.

Therefore, if the Commission authorizes SCE&G to amortize any NND project cost through traditional ratemaking practices, the amortization costs should be developed utilizing the current federal income tax rate of 21%.

V. SECURITIZATION

Q HOW IS SCE&G PROPOSING TO AMORTIZE THE APPROXIMATELY $3.3 BILLION OF THE NND PROJECT INVESTMENT?

A This $3.3 billion amortization will be amortized over a period of 20 years and will be afforded traditional ratemaking treatment. That is, the unrecovered portion of the rate base will be subject to SCE&G's cost of capital. That cost of capital reflects a return on common equity of 10.25% and a weighted average cost of debt of 5.85%. The capital structure consists of 52.81% equity and 47.19% debt. It should also be noted that these percentages will be fixed over the 20-year amortization period. Factoring in the income tax effects, this produces a before-tax cost of capital of 11.53% assuming the pre-2018 federal tax rate, which SCE&G is using to develop its proposed amortization revenue requirement. As previously discussed, SCE&G is proposing an NND Tax Rider that should lower the effective federal tax rate to the current rate of 21%. The pre-tax rate of return at a 21% federal tax rate is 9.97%.

Q IS THIS THE MOST COST-EFFECTIVE WAY TO AMORTIZE ANY NND PROJECT COSTS?

A No. Any NND project costs that the Commission authorizes to recovered from the ratepayers should be securitized. The revenue requirement associated with securitized assets is substantially less than the revenue requirement assuming a traditional pre-tax rate of return. The reason securitization places a lower cost burden on ratepayers is that under the securitization, the cost of capital is simply the cost of AAA-rated bonds plus issuance costs as opposed to SCE&G's before-tax cost of capital. Long-term AAA-rated bonds currently have a cost of approximately 4% while SCE&G's proposed pre-tax cost of capital at the current federal tax rate is 9.97%. The lower rate of return will produce a substantially lower revenue requirement, all other things being equal.

Q COULD YOU PLEASE BRIEFLY DESCRIBE SECURITIZATION?

A Securitization is a financing technique through which a specific asset or pool of assets is financed through the issuance of securities commonly known as Asset-Backed Securities ("ABS"). These securities rely on the revenue stream underlying the securitized assets for debt service.

Securitization has been used in the utility industry for reducing the recovery of stranded cost, and storm and environmental-related costs. Many regulatory commissions throughout the United States have employed securitization to reduce ratepayers' costs and rates. Securitization allows a utility to isolate a portion of its assets and eliminate the amount of equity used to finance those specific securitized assets. As a consequence, the debt has a lower cost than equity and is not subjected to income taxes.

Q PLEASE BRIEFLY DESCRIBE THE BASIC STRUCTURE OF SECURITIZATION.

A The structure of a typical securitization transaction is based on the underlying assets and the expected cash flows to be generated from those assets. In general, a utility sells the assets to a special purpose financing entity ("SPE"). The sale of these securitized assets for the most part insulates the securitized property from the creditors of the utility and the credit risk of the utility. The SPE then issues bonds backed by the underlying assets to ABS investors.

For securitizing utility assets, states pass legislation that provides for the recovery of the securitized costs through a non-bypassable charge which is commonly referred to as a securitization charge. This right for collection is transferred to an SPE that issues the securitized bonds in the capital market. The utility generally utilizes the securitization proceeds from the sale of the bonds to retire debt and equity securities. As a result of the legislation, the securitized bonds received the highest possible rating from the rating agencies.

Q HAVE YOU DEVELOPED ANY ESTIMATES OF THE POTENTIAL COST SAVINGS THAT SCE&G RATEPAYERS WOULD REALIZE AS A RESULT OF SECURITIZING THE NND PROJECT COSTS THAT ARE INCLUDED IN THE CUSTOMER BENEFIT PLAN?

A Yes. Exhibit ____ (JTS-1) shows the results of my analysis that compares the annual revenue requirement that SCE&G developed for its treatment of approximately $3.3 billion of NND project costs with the annual revenue requirements assuming that this was completely financed by AAA-rated debt. This analysis was developed using the current federal income tax rate of 21%. The revenue requirements were developed utilizing a model that SCE&G provided to ORS in response to Question 1-116 Updated.

I am aware that the structure of the securitization would be different than a traditional revenue requirement approach. However, the analysis I performed does give an indication of the savings that can be realized through securitization.

Q COULD YOU PLEASE SUMMARIZE THE RESULTS OF YOUR ANALYSIS?

A The results of my analysis show that the SCE&G ratepayers would receive significant benefits if securitization is utilized to recover the NND project costs as opposed to traditional ratemaking. In the scenarios that were modeled, the savings to ratepayers were over $1 billion in nominal dollars. Exhibit ___ (JTS-1) shows the savings in nominal dollars and on a present value basis using SCE&G's pre-tax rate of return of 9.97%.

Q WOULD YOU PLEASE BRIEFLY DESCRIBE THE ASSUMPTIONS YOU UTILIZED IN DEVELOPING YOUR CALCULATION?

A Yes. As I indicated in my response to the previous question, I utilized the response to ORS 1-116 Updated as a starting point. As Exhibit ____ (JTS-1) shows, I developed the securitization costs for both a 20-year period and a 15-year period. Also, I utilized a cost of debt for AAA-rated bonds of 4% and 5%. The cost of debt would likely be less than 4% because currently the cost of AAA bonds is below 4%. In addition, because the bonds should require multiple tranches which would cover periods less than 15 or 20 years, the interest rate should be less than long-term rates. However, current market conditions will determine the cost of the bonds.

Q IF THE COST OF BONDS SHOULD BE 4% OR EVEN LESS, WHY DID YOU UTILIZE 5% IN YOUR ANALYSIS?

A I utilized 5% to capture additional costs that would be incurred if securitizing is employed. The additional costs would include upfront costs of issuing securitization bonds such as underwriting fees, legal fees and costs associated with call premiums and any other costs associated with the retiring debt.

By utilizing a 5% interest rate as opposed to a 4% interest rate, I have included over $180 million to cover those costs. The term of the securitization period impacts the amount of additional costs that are collected.

Q DOES SOUTH CAROLINA HAVE LEGISLATION IN PLACE THAT WOULD SUPPORT SECURITIZATION?

A No, there is no legislation in South Carolina that supports securitization. However, given the significant savings that securitization can produce, it is reasonable to assume that South Carolina would provide the necessary legislation to allow securitization to occur.

Q ARE YOU SUPPORTING THE RECOVERY OF APPROXIMATELY $3.3 BILLION OF NND PROJECT COSTS?

A No. I am not endorsing the recovery of approximately $3.3 billion of NND project costs. I have just utilized that amount in my preliminary securitization cost comparative analysis.

Q HAS SCANA, SCE&G AND/OR DOMINION ENERGY CONSIDERED SECURITIZATION OF THE NND PROJECT COSTS?

A In response to Staff Data Request No. 1-169, SCANA/SCE&G stated that they had consulted an external advisor and evaluated the possibility of securitization of the NND project costs. The result of this evaluation showed that there were many challenges in implying securitization to the NND project costs. I have provided this data response as Exhibit ____ (JTS-2).

Q WOULD YOU PLEASE ADDRESS SOME OF THE CONCERNS THAT SCE&G HAS LISTED REGARDING SECURITIZATION IN EXHIBIT ____ (JTS-2)?

A Yes. First, I acknowledge that there is currently no legislation in South Carolina that supports securitization. However, if the savings are substantial I believe that supporting legislation could be passed.

Secondly, SCANA indicates that it has issued 30-50 year debt that contains substantial make-whole provisions. SCE&G did not quantify how substantial the make-whole provisions are. However, in other securitization filings, utilities have included costs associated with paying a premium to buy back existing debt. Also, given the level of utility-based securitization that has existed throughout the United States, I do not believe this concern is unique to SCE&G.

SCE&G also expressed concern about the amortization period. I have utilized a 15-year period for purposes of determining the cost for securitization. I am aware that in the State of Michigan both DTE Electric and Consumers Energy utilized 15-year periods to securitize the stranded costs associated with their nuclear units.

Finally, SCE&G indicated that one rating agency wants the securitization charge to be no more than 20% of the customer bill. The securitization costs that I have developed utilizing an interest rate of 5% did not produce securitization charges that are greater than 20% of SCE&G's current electric revenues, excluding SCE&G's proposed base $413 million rate decrease to remove NND project costs from current rates. However, even if the securitization charges are above levels that the rating agencies want, a portion of the costs to be recovered could be securitized.

Q WHAT IS YOUR RECOMMENDATION REGARDING THE TREATMENT OF ANY NND PROJECT COSTS THAT THE COMMISSION AUTHORIZES FOR RECOVERY IN THIS PROCEEDING?

A Based on my preliminary analysis, it appears that securitization provides a viable, economic alternative that should be pursued. Because this will provide substantial benefits to the ratepayers, the securitization process should not be dismissed but needs to be pursued to determine if it provides substantial economic benefits to the ratepayers.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

VI. QUALIFICATIONS OF JAMES T. SELECKY

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Principal at Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a major in Engineering. In 1978, I received the degree of Master of Business Administration with a major in Finance from Wayne State University.

I was employed by The Detroit Edison Company ("DECo") in April of 1969 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included evaluation of equipment for use on the distribution and transmission system; equipment performance testing under field and laboratory conditions; and troubleshooting and equipment testing at various power plants throughout the DECo system. I also worked on system design and planning for system expansion.

In May of 1975, I transferred to the Rate and Revenue Requirement area of DECo. From that time, and until my departure from DECo in June 1984, I held various positions which included economic analyst, senior financial analyst, supervisor of the Rate Research Division, supervisor of the Cost-of-Service Division and director of the Revenue Requirement Department. In these positions, I was responsible for overseeing and performing economic and financial studies and book depreciation studies; developing fixed charge rates and parameters and procedures used in economic studies; providing a financial analysis consulting service to all areas of DECo; developing and designing rate structure for electrical and steam service; analyzing profitability of various classes of service and recommending changes therein; determining fuel and purchased power adjustments; and all aspects of determining revenue requirements for ratemaking purposes.

In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. At DBA and BAI I have testified in electric, gas and water proceedings involving almost all aspects of regulation. I have also performed economic analyses for clients related to energy cost issues.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?

A Yes. I have testified on behalf of DECo in its steam heating and main electric cases. In these cases I have testified to rate base, income statement adjustments, changes in book depreciation rates, rate design, and interim and final revenue deficiencies.

In addition, I have testified before the regulatory commissions of the States of Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, New Jersey, North Carolina, Ohio, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming, and the Provinces of Alberta, Nova Scotia and Saskatchewan. I also have testified before the Federal Energy Regulatory Commission. In addition, I have filed testimony in proceedings before the regulatory commissions in the States of Florida, Hawaii, Kentucky, Montana, New York, Pennsylvania, Virginia and the Province of British Columbia. My testimony has addressed revenue requirement issues, cost of service, rate design, financial integrity, accounting-related issues, merger-related issues, and performance standards. The revenue requirement testimony has addressed book depreciation rates, decommissioning expense, O&M expense levels, rate base adjustments, working capital, and post test year adjustments. In addition, I have testified on deregulation issues such as stranded cost estimates.

Exhibit ____ (JTS-1)

Comparison of SCE&G's
Proposed Amortization of NND Project
Cost and Securitization Example

	5% Cost of Debt			4% Cost of Debt		
Year	**SCE&G**	**JTS 20-Year**	**JTS 15-Year**	**SCE&G**	**JTS 20-Year**	**JTS 15-Year**
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2019	$398.30	$267.94	$311.91	$398.30	$241.72	$286.02
2020	$422.39	$301.40	$343.72	$422.39	$277.08	$320.05
2021	$392.25	$279.16	$319.83	$392.25	$256.42	$298.08
2022	$376.41	$271.22	$310.23	$376.41	$250.07	$290.41
2023	$360.58	$263.28	$300.64	$360.58	$243.72	$282.73
2024	$344.74	$255.34	$291.05	$344.74	$237.37	$275.06
2025	$328.90	$247.40	$281.45	$328.90	$231.02	$267.38
2026	$313.06	$239.46	$271.86	$313.06	$224.66	$259.71
2027	$297.22	$231.52	$262.27	$297.22	$218.31	$252.03
2028	$281.39	$223.58	$252.67	$281.39	$211.96	$244.36
2029	$265.55	$215.64	$243.08	$265.55	$205.61	$236.68
2030	$249.71	$207.70	$233.49	$249.71	$199.26	$229.01
2031	$230.65	$196.12	$220.25	$230.65	$189.17	$217.60
2032	$196.23	$166.63	$189.11	$196.23	$160.68	$187.78
2033	$186.34	$161.67	$182.49	$186.34	$156.71	$182.49
2034	$176.44	$156.71	$0.00	$176.44	$152.74	$0.00
2035	$166.55	$151.75	$0.00	$166.55	$148.77	$0.00
2036	$156.66	$146.79	$0.00	$156.66	$144.81	$0.00
2037	$146.76	$141.83	$0.00	$146.76	$140.84	$0.00
2038	$136.87	$136.87	$0.00	$136.87	$136.87	$0.00
Total	$5,426.99	$4,262.04	$4,014.04	$5,426.99	$4,027.79	$3,829.39
NPV	$2,714.47	$2,036.79	$2,170.56	$2,714.47	$1,900.52	$2,052.09

Assumptions						
Amortization Period	20	20	15	20	20	15
Tax Rate	24.95%	24.95%	24.95%	24.95%	24.95%	24.95%
Overall Pre-Tax Rate of Return	9.97%	5.00%	5.00%	9.97%	4.00%	4.00%
Discount Rate	9.97%	9.97%	9.97%	9.97%	9.97%	9.97%

SOUTH CAROLINA ELECTRIC & GAS COMPANY
OFFICE OF REGULATORY STAFF'S CONTINUING
AUDIT INFORMATION REQUEST
DOCKET NO. 2017-207-E (2nd Continuing AIR)
DOCKET NO. 2017-305-E (1st Continuing AIR)
DOCKET NO. 2017-370-E (1st Continuing AIR)

REQUEST 1-169:

Please identify if SCANA, SCE&G and/or Dominion has considered securitization for the debt associated with the NND Project. If so, why was securitization not pursued?

RESPONSE 1-169:

SCANA/SCE&G consulted with external advisors and evaluated the possibility of securitization of the cost of the new nuclear project. The results of this evaluation showed that there were many challenges in applying securitization to the new nuclear project costs.

- There is no legislation in South Carolina that supports securitization.
- SCANA has issued 30 and 50 year debt. This debt contains substantial make whole provisions.
- In order to get a top credit rating on securitized debt, ratings agencies have to be comfortable with the load forecast to ensure that the securitized costs are recoverable. Therefore most securitizations occur over a shorter time period. Twenty years is considered a long time period for securitization.
- One ratings agency wants the securitization charge to be no more than 20% of a customer's bill.
- While securitization would remove the debt from the balance sheet, Moody's includes the securitized debt in it's consolidated debt metrics which would negatively impact ratings from Moody's.
- Investors expect recovery of costs under the Base Load Review Act

The size of this transaction and the recovery period required could result in a higher rate for the securitization than normal. While the securitized rate may be lower than the current bond rates, the make whole provisions on current debt would require payment of the full interest obligation which would increase the amount financed.